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How Brazil's Richest Man Lost \$34.5 Billion

By [Juan Pablo Spinetto](#), [Peter Millard](#), and [Ken Wells](#) October 03, 2013

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Eike Batista stands at the center of a specially built air-conditioned stage on his 22,000-acre-plus Açú port project, a massive oil and iron-ore shipping complex about 200 miles north of Rio de Janeiro. He's beaming, flashing victory signs. He has on an orange-and-gray racing jacket of the type he wore as a champion speedboat racer two decades before. It clashes badly with his bright pink tie and gray pinstripe suit, but he doesn't appear to care—in fact, the loud ensemble only serves to highlight a faux oil-stained handprint across the jacket's left pocket—a corny hint about why he's asked everyone here.

It's a cloudy April afternoon in 2012, but Batista is full of blue skies and endless vistas. To date he's founded five publicly traded companies and is soon to launch a sixth. His personal wealth is estimated at \$34.5 billion; most of his enterprises are managed under the umbrella of a holding company bearing his initials, the EBX Group. At 55, he's Brazil's richest man—and the eighth-wealthiest man on earth.

With him onstage is a roster of Brazil's political and business elite: President Dilma Rousseff, Rio Governor Sérgio Cabral, and Mines and Energy Minister Edison Lobão. The audience of 400 includes foreign corporate luminaries such as Kim Jung Rae, co-chief executive officer of Hyundai Corp. Batista has gathered them to

show off Açu, which he predicts will be the largest port in the Americas. He also wants to share some good news. His oil company, OGX Petróleo e Gás, has begun production on what he describes as a “new frontier” of petroleum 37 miles off the Brazilian coast. “This is an historical moment,” says Batista. “It’s the first time an independent Brazilian company has produced offshore oil.”



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That Batista, new to the oil business, had brought in wells gushing with crude was the sort of announcement investors had come to expect of him. At that moment, Batista embodied Brazil’s decade-long economic expansion, and for international investors wanting a piece of the new Brazil, he could do no wrong. Many of those investors were American. BlackRock ([BLK](#)), the world’s largest money manager, had bought millions of OGX shares. Pimco ([ALV:GR](#)), manager of the world’s largest bond fund, owned \$576 million in OGX bonds. General Electric ([GE](#)) took a 0.8 percent share in EBX valued at \$300 million. Brazilians “should be very proud” of what Batista and OGX had achieved, said Rousseff, sporting her own orange OGX jacket onstage at the Açu port. “OGX has a big contribution to make in the offshore oil production of Brazil.” Batista, in an interview a few days later with investment conference host Michael Milken in Beverly Hills, declared Rousseff’s appearance at his port not simply a feather in his cap but also “a major event for Brazil.”

To say Batista overreached would be to seriously undersell what has happened in the 18 months since that self-regarding presstravaganza of hubris and magical thinking. In what is shaping up to be one of the largest personal and financial collapses in history—if not the largest—Batista may be nearing bankruptcy.

On Oct. 1, OGX missed a \$45 million interest payment on bond debt it had racked up during its rise. Batista has sold his planes and his helicopter, and creditors are arguing over the remains of his companies. He's no longer on the Bloomberg Billionaires Index and has become the butt of jokes in Brazil. One suggests that Pope Francis plans to return to Brazil soon and will again be visiting the poor, including Batista.

Batista declined to be interviewed for this story, but journalists are not the only ones asking questions. Brazil's securities regulator has started an investigation into Batista and OGX after an investor alleged that Batista dumped 126.7 million OGX shares just before the company scrapped projects and warned that it may stop pumping crude next year. In a July op-ed for Brazil's *Valor Econômico* newspaper, Batista said he would honor all of his obligations. In that same article, he put some of the blame on his auditing firm and executives for unreasonably building shareholder expectations. The company has denied it gave faulty advice. Once a staple on the airwaves and in print, Batista has mostly gone silent.

Rare is the person—at least until recently—who meets Batista and is not seduced by his supreme self-confidence. As Daniel Lamarre, CEO of Cirque de Soleil, said when announcing a partnership with Batista's IMX entertainment venture in 2012: “He is alone in his league.”

Batista has always been the leading chronicler of his own legend. He has long liked to tell the story of how as a teenager in Germany, he dreamed of becoming wealthy on gold, and how those dreams came true. At one point, a clairvoyant advised him to go to Machu Picchu, the ancient Inca site in Peru, and gaze at the sky at a certain hour, saying it would bring him luck. “Seems that it worked,” he told Brazilian TV host Jô Soares in May 2011. It's all part of a mystical streak he embraced, and peddled. His company

names all end in X—EBX, OGX, MMX. In his numerology, X stands for the multiplication of wealth.

Batista was born in Governador Valadares, these days a town of about 260,000 in Brazil's mining state of Minas Gerais, but spent his teens in Europe with his family, hopping from Geneva to Düsseldorf and Brussels as the career of his father, Eliezer Batista da Silva, took off. The elder Batista is a polymath who speaks seven languages, and a giant figure in the industrialization of Brazil. In the early 1960s he ran Vale do Rio Doce, at the time the government-owned mining company, transforming it through his two stints as CEO into the world's largest iron-ore producer. Known as Vale today, it's valued at more than \$80.6 billion.

Eike Batista studied metallurgy and returned to Brazil in 1980. At the time, thousands of pick-and-shovel peasant miners known as *garimpeiros* were pushing into the Amazon to look for gold in the jungle. Batista joined the rush as a gold buyer but soon started applying industrial mining to the tracts the peasant miners were working by hand. Arranging financing through a contact of his father's, Batista went from a 24-year-old bartering gold nuggets to a 30-year-old buying and selling gold mines.

In 1983, Batista and his backers took over Treasure Valley Explorations, a small company trading on the Toronto stock exchange, and renamed it TVX Gold. As CEO, he developed successful mines in Brazil, Canada, and Chile. By 1996 the company was valued at \$1.7 billion. He married a Playboy centerfold—Luma de Oliveira—and had two sons, Thor and Olin, named after Norse gods. (The couple divorced in 2004.) Journalists visited him at his marble-clad home high above Rio's glittering beaches, marveling at the palatial swimming pool, the two home theaters, and “a vista fit for a king.”

Trouble soon arrived, however, with an ill-advised effort to develop a gold mine in Greece that drew huge public opposition

over the potential environmental impact. Bugged down in Greece, he pressed ahead with mines in Russia and the Czech Republic, projects that failed on tumbling gold prices and what Batista would later say was his poor choice of managers. By the time he resigned in 2001, TVX, which had once been worth \$1.7 billion, had lost more than 96 percent of its value. It was eventually sold to Kinross Gold ([KGC](#)) in 2002 for C\$875 million (\$847 million).

Batista might have been finished but for an oncoming boom that would favor a specialist in resources. Brazil in 2002 entered a period of economic expansion under President Luiz Inácio Lula da Silva, and the next commodities rush was on—this time for oil. “Lula,” as he’s universally known, enacted free-market reforms that created the highest Brazilian growth rates in two decades and helped the country avoid the worst of the 2008 recession. No one benefited more from the economic miracle than Batista.

In 2001 he started a thermoelectric venture in the north of the country, which grew into the utility company MPX Energia, and in 2005 an iron-ore project. Both became public companies.

In July 2007, Batista announced the creation of OGX, which would explore for and produce oil offshore, with early backing from the Ontario Teachers’ Pension Plan and the billionaire Ziff brothers from New York. He did not appear worried about his inexperience in oil and gas exploration and development. He would hire the knowledge he needed, starting with executives from Petrobras ([PBR](#)), the state-controlled oil company. Among those he lured from the company was Paulo Mendonça, its exploration chief, whom Batista came to call Dr. Oil. With Mendonça at the helm of OGX, Batista boasted that he now had a “dream team” that would discover deposits that Petrobras had missed.

OGX entered the business aggressively. In November 2007 the company bid at a government offshore oil lease sale, paying \$1.3

billion for 21 blocks, seven in what is known as the Campos Basin, off Rio state. The bids for the leases in Campos, which holds 80 percent of Brazil's output, startled his competitors. OGX offered double what Petrobras was offering for four Campos tracts and outbid Anadarko Petroleum ([APC](#)), an offshore specialist, fourfold on another.

"They went in and paid massively; they put multiple times what anyone else put on the blocks," recalls Rebecca Fitz, an analyst with Washington-based PFC Energy. "They needed to have extraordinary success to recoup. The high bid kind of forced the hand to begin with. They were showing the world they could beat everybody."



In Rio with girlfriend Flávia Sampaio in 2007 Photograph by Reginaldo

Teixeira/Abril Comunicações S.A. In Rio with girlfriend Flávia Sampaio in 2007

In 2007, Batista purchased a 177-foot-long cruise ship, which he converted to a private yacht and overhauled to run tours and host parties in Rio's Guanabara Bay. Aboard the *Spirit of Brazil VII*, he threw parties where he entertained Brazilian soap-opera stars and courted the press. Never shy of displaying wealth in a country with vast income disparity, Batista would also be photographed with his \$500,000 Mercedes-Benz SLR McLaren parked in the living room of his mansion in Rio's Jardim Botânico neighborhood. (In June, Thor Batista, now 21, was convicted of involuntary manslaughter after killing a cyclist while driving the McLaren at night in a low-income Rio neighborhood. He has appealed the conviction.)

A few days after Batista took OGX public in June 2008, oil hit a record \$145.30 a barrel. The initial public offering raised 6.7 billion reais (\$3 billion), making it the biggest in Brazilian history. "You can see why everybody wanted to jump on the train," says Ruairaidh Montgomery, a senior analyst at oil and gas researcher Wood Mackenzie. OGX announced it was aiming for

more than 1 million barrels a day by 2019—which would have amounted to almost half of Brazil’s total output. They announced potential resources of 4.8 billion barrels, more than a third of Petrobras’s proven reserves. OGX had yet to drill a single well.

Batista’s super port at Açú was the capstone of his master plan—a virtuous cycle in which shipping unit OSX Brasil paid rent to his LLX Logística unit, while OGX produced natural gas for MPX Energia, which would supply electricity for his iron-ore mines. “If the port wasn’t mine, the port guy would charge me half of my profits,” he said in an interview with a German journalist. “You better control the whole system.”



OGX’s FPSO OSX-1 oil production vessel in Rio

Photograph by EBX

Group OGX’s FPSO OSX-1 oil production vessel in Rio

As the economy cruised along, investors who wanted in on the Brazilian miracle came to Batista. His investors would include not only BlackRock, Pimco, and GE, but also Abu Dhabi’s sovereign wealth fund, Mubadala Development, IBM ([IBM](#)), and even ExxonMobil ([XOM](#)), which teamed up with OGX on bids for offshore oil leases. (Mubadala says it remains in “close discussions” with EBX. The others declined to comment on their investments in Batista’s ventures.)

By the end of 2010, careful observers might have noticed some odd signs about the Batista empire. For one, Batista was publicly peddling a stake in the Campos Basin to the Chinese and other possible buyers yet finding no takers—this at a time when Beijing-based Sinopec Group was willing to pay \$7.1 billion for a 40 percent stake in Spanish oil giant Repsol’s ([REPPY](#)) Brazilian operations. Management at the time called that a positive development, saying it could get a better price after additional exploration unveiled more hydrocarbon riches.

In April 2011, OGX released a report by independent auditors that startled investors. Reserves in the company's fields looked less a sure thing than earlier reports indicated, with a good portion of them marked down as "prospective" instead of "contingent." Essentially, recoverable reserves simply were not as certain as they once seemed to be. The stock fell 17 percent, the most in two and a half years, and OGX would never recover to the 20-reais level traded early that year. An historic unraveling had begun.

Unable to find drilling partners, Batista and OGX in May 2011 turned to the bond markets and—despite concerns about its reserves—the "smart money" poured in. The company raised \$2.6 billion for its exploration campaign and began to tout a 100 percent success rate on its Campos test wells. A year later, after its own analyses showed most of the crude it had discovered was locked in complex subsea geologic formations that made it difficult to pump out, OGX revised its claims to say it thought 87 percent of its drill sites would be producing oil.

Many oil companies would have stayed quiet in this period so as not to be accused later of inflating expectations. Several of his top executives are believed to have advised Batista to tone down the promises. Batista, according to people working with him at the time, couldn't help himself.

One longtime associate with knowledge of Batista's operating style, who asked not to be named because he is not authorized to speak, says caution and patience aren't Batista characteristics. "Eike is a trader, not a project builder," he says. "He set goals that should have taken 5 to 10 years to achieve but was managing them as if he were running the 400 meters." Batista also doesn't like bad news, according to this person. "Management was structured in a way that there was incentive to take only good news to Eike because he had a tendency to shoot the messenger," he says.

In January 2012 an initial production report that might have disappointed some companies caused celebration at OGX. The report on the first well showed flows in the middle of the company's expectations, at 15,000 barrels a day. The results had Batista and "Dr. Oil" popping champagne corks while technicians opened the valves remotely from Rio and webcams delivered pictures to the world. When his executives cautioned him about overselling these results, Batista's reply was always the same: He preferred to rely on the opinions of Mendonça. But even Dr. Oil could do little to help, which may explain why he was nudged out of OGX in June 2012. He stayed on briefly as an EBX adviser before severing ties with Batista in August of that year. Mendonça declined to be interviewed for this story.

"I'm not sure how much Paulo Mendonça pushed it, or how much was Eike Batista, but it was a big mistake," says Wagner Freire, a former exploration and production manager at Petrobras during the time Mendonça was an exploration executive. "They were very optimistic; they didn't look at the conservative side of the argument. You're starting in a very difficult area. You can't extrapolate and say you have big reserves."

OGX began to hit snags as it replaced the drilling rigs with production platforms that would pump the oil out, taking almost a year longer than its most optimistic forecasts to get its extraction operations up and running. For Batista this was nothing that more money couldn't solve, and he headed again to the bond markets. In March 2012, OGX raised an additional \$1.1 billion. That same month, however, output at the company's first well in the Tubarão Azul field, part of the Campos Basin, dropped to 10,000 barrels a day, the low end of what Batista had estimated.

Despite the setback, Batista maintained a buoyant facade. At the end of March, EBX announced that after a year of quiet negotiations the Abu Dhabi sovereign wealth fund Mubadala was investing \$2 billion for a 5.63 percent stake in EBX. The

investment meant not only that one of the world's largest investing funds was entering Brazil by buying into Batista's strategy, it was also backing a valuation for EBX of about \$35 billion.

Always a pitchman, he told Bloomberg News a few hours after announcing the Mubadala deal that he was looking to sell another stake for about \$1 billion to another sovereign fund. "Imagine me getting my engine and adding another turbocharger," he said during the interview. In public, he all but promised he would be the world's richest man by 2015 and be worth \$100 billion by 2020. At the end of April 2012, Batista would tell Bloomberg TV that his companies were sitting on \$1.5 trillion of "underlying assets." That amounts to the entire estimated value of all the mineral assets in Mongolia.

Elsewhere, he dropped hints about new deals. One day he was considering bringing in an "industrial partner," the next he was saying another sovereign wealth fund wanted in on EBX. In May he told Rio journalists that he was in talks with groups from the U.S. and Asia to sell a 2.8 percent stake of EBX for about \$1 billion and that he hoped to reach an agreement "in 63 days." His lucky number, he explained, was 63.

Brazilian growth slowed in 2012, and Batista's fortunes followed. On June 26, OGX announced that well pressure at the Tubarão Azul field had faded and that "ideal" production at its first two wells would be about 5,000 barrels a day—75 percent less than expected. It was a number that could not be spun. Shares fell about 45 percent in two days, and OGX bonds began a free fall as analysts cut ratings.

It only got worse. OGX brought in a new CEO who hired U.S. oil-field services company Schlumberger ([SLB](#)) to review the mountain of data from its drilling campaign, says a person who helped set up the contract but isn't authorized to comment on it. An eight-month study, says this person, showed the wells were

basically duds. With that knowledge, OGX would announce it was abandoning a group of fields, turning back some of those expensive leases to the government. The well that started at 15,000 barrels a day would be shut in 2014. If OGX fails to pay off its \$3.6 billion in bonds it would be among the largest corporate defaults in history.

 Photograph by Paulo Vitale/Abril Comunicações S.A.

“It’s stunning. There’s a maxim: Never drill with debt,” says Michael Roche, an emerging-market strategist at broker-dealer Seaport Group. “I’m sure the bond managers who suffered the most losses say ‘I’m never again going to lend to an oil company that’s not producing oil.’”

Batista has been spending the last few months shrinking his empire by relinquishing control of his most promising units; renegotiating debt with his banks and creditors, including Mubadala; and seeking to avoid the bankruptcy of his most problematic venture, OGX, which has total debt 11 times larger than its market value. He’s cut his stake in MPX Energia, the utility company. E.ON ([EOAA:GR](#)) is now the largest shareholder in the company, which has been renamed Eneva. In September he ceded control of the Açú port complex to EIG Global Energy Partners and announced an agreement to sell an iron-ore port to a joint venture between Mubadala and commodities trader Trafigura.

These days, Batista is melancholic and dazed and yet still craving the kind of attention he once commanded, according to people who have seen him in recent months. He told the *Wall Street Journal* in an interview published on Sept. 15 that he would make a comeback, mentioning the example of billionaire entrepreneur Elon Musk, founder of PayPal ([EBAY](#)) and electric car maker Tesla Motors ([TSLA](#)).

“Mr. Batista continually said, ‘Don’t bet against world-class, idiot-proof assets,’ but it appears the assets were neither world-class nor idiot-proof,” says Greg Craig, a Telluride (Colo.) investor who holds shares and bonds in OGX and has investments in other Batista enterprises. “They called themselves conservative in their results and plans yet turned out to be either disastrously wrong or dishonest.”

The *Spirit of Brazil VII* is no longer moored in Rio de Janeiro. A ship broker familiar with the market reports that EBX has considered selling it for scrap.

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